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ABSTRACT

Rural revitalization was the theme of the 1970s, and rural economic stress is the overriding issue of the 1980s. This stress is associated with both cyclical trends and with basic changes in the structure of the rural economy. These cyclical and structural changes affect, and are affected by, the human resource base of rural economies. Prior to the 1970s, the rural unemployment rate was lower than the urban rate. In the 1980s the rural unemployment rate rose more rapidly than the urban rate, peaked at a higher level, and has remained above the urban rate. During the 1960s and 1970s, nonmetro areas shifted from predominantly agricultural to predominantly nonagricultural employment. The current economic structural adjustments in industry are disproportionately affecting low-wage manufacturing in rural areas. Rural America is extremely diverse, and generalizations are difficult to make. For that reason, programs tailored to particular types of rural economies may be more effective than generalized programs. The concentration of adjustment problems in particular geographic areas suggests the need for federal, state, local, and regional cooperative development strategies. (ALL)

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ECONOMIC DIMENSIONS OF RURAL AMERICA

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The rural economic policy agenda changes over time in response to changing economic, social and demographic conditions. Thirty years ago agriculture dominated the social and economic well-being of most of the rural population. In 1950, 23 million Americans, 15 percent of the nation's population, lived on farms. In rural areas, 4 of every 10 persons lived on a farm and almost a third of the nation's nonmetropolitan work force was engaged directly in agriculture. Hence technological and organizational changes in agriculture, and public policy relating to agriculture, were dominant forces shaping rural life both on the farm and in rural communities.

Rural America in the 1950s was characterized by economic disadvantage and widespread poverty. Rural poverty was often concealed by a facade of pastoral beauty. As a consequence, the major engagements in the War on Poverty were fought in the cities. Rural poverty was relatively neglected. This neglect was formally addressed in 1967 by President Johnson with the creation of a National Advisory Commission on Rural Poverty. The Commission's final report, *The People Left Behind*, concluded that "rural poverty is so acute as to be a national disgrace."

With this background in mind, this paper identifies what is different in rural America in the 1980s compared with the 1970s and suggests implications of these new trends for rural economic policy. Measures of the socioeconomic conditions of rural areas are important in assessing the need for continued public programs to assist rural areas, while information on rural-urban differences helps justify separate (or separately administered) rural and urban policies. The diversity of conditions among rural areas provides a rationale for multi-dimensional policies that target assistance to areas of greatest need and/or opportunity.

NEW FORCES SHAPING U.S. RURAL POLICY

Present day rural America bears little resemblance to the 1950s. Significant changes have occurred in population size, growth, and composition; the industrial and occupational structure of the rural economy; the general level of living and socioeconomic well-being; and, perhaps most important of all, the linkages binding nonmetro and metro economies and communities.

Socioeconomic conditions in rural America have generally improved compared with three decades ago; and rural-urban differences, while still present and important, have diminished greatly. Rural America, once an adjunct to the mainstream of American life, is now closely integrated with national events. *However, given this general appraisal, rural economic conditions have worsened significantly since 1980.*

If rural revitalization was the theme of the 1970s, economic stress is the overriding nonmetro issue of the 1980s. This stress is associated with both cyclical trends and with basic changes in the structure of the nonmetro economy. These cyclical and structural changes affect, and are affected by, the human resource base of rural economies. Moreover, all of these trends and changes are taking place within the context of changes in the federal system of government, and these organizational changes affect government's response to the changed social and economic context.

Cyclical Trends

Prior the the 1970s, the rural unemployment rate was lower than the urban rate -- remaining below the urban rate throughout recession and recovery. The most recent recession represents a significant break with that pattern. The rural unemployment rate rose more rapidly than the urban rate, peaked at a higher level, and has remained above the urban rate throughout the 1980s. Employment in timber industries fell as new housing starts declined. Many rural manufacturing plants were linked to the struggling auto and steel industries. And mining and other energy extractive industries once again suffered from enhanced import competition during this period. In addition, rural areas were more heavily affected by

involuntarily shortened work weeks, and a higher percentage of rural workers became discouraged from looking for work than was true of urban workers.

Rural areas have recovered from the recession more slowly than urban areas. In fact, the rural unemployment rate actually increased between 1984 and 1985 while the metro rate declined. As of 1985, the official rural employment rate is 3.0 percentage points above the urban rate. Most of this difference is explained by the poor performance of the rural manufacturing sector which lost 450,000 jobs in the recession and regained only about 20,000 jobs between 1982 and 1983 during the beginning of the recovery. Improved performance of this sector seems to be the key to future development for many individual areas. However, the issue may be more complex -- requiring either a transition to a post-industrial, service-producing economy, or success in capturing a different mix of manufacturing activities than fueled the rural growth of that sector in the 1960s and 1970s.

Structural Changes in the Rural Economy

Industrial Transformation of the Rural Economy. The industrial transformation of U.S. and rural employment has included a shift from predominantly agricultural to predominantly nonagricultural employment. This transformation was followed by a change in the mix of nonagricultural jobs from goods production to much greater emphasis on services. In 1880, nonagricultural workers first outnumbered agricultural workers. In the 1960s, manufacturing's share of nonagricultural employment first dropped below a third and the share accounted for by services (including government) began to rise.

The transformation continues today. During the 1960s and 1970s, nonmetro areas competed successfully with urban areas in attracting or creating new job opportunities in manufacturing. In fact, the share of all U.S. wage and salary manufacturing employment in rural areas rose from 19 percent in 1969 to 22 percent in 1984. Roughly 40 percent of rural citizens live in counties primarily dependent on manufacturing for employment. This dependency represents a significant structural transformation of rural America. In the rural South particularly, the growth of manufacturing jobs helped many rural households rise

from poverty. At the same time, the growing rural manufacturing base has had a disproportionate representation of low-wage, labor-intensive industry. Again, the South is a case in point because apparel, textile, wood products, leather goods, shoes, and a few other low-wage industries accounted for 40 percent of total nonmetro manufacturing employment in 1983, compared with only 19 percent for the United States as a whole.

The U.S. goods-producing sector has experienced significant job losses as part of the current structural realignment. In many areas, U.S. wage gains appear to have substantially outstripped productivity gains, leaving the country vulnerable to foreign competition. Rural areas, because of the types of products manufactured there, appear to be bearing a disproportionate share of the shorter term structural adjustments in manufacturing. And competitive problems were aggravated by the high value of the dollar. Although the dollar has declined against the Japanese Yen and some European currencies, it remains high against the currencies of several nations that recently became direct competitors with rural manufacturers. Moreover, the introduction of productivity-enhancing technology has exacerbated the situation by further limiting employment growth in goods-producing industries.

Rural specialization in production activities has limited employment opportunities for rural workers in the first half of the 1980s. Urban employment grew more than three times as fast (10 percent) as rural employment (3 percent) during 1970-85. Slow employment growth has meant that rural areas had more difficulty absorbing new entrants to the work force, and many manufacturing and mining workers who lost their jobs were not able to find alternative employment. Within goods-producing industrial sectors, nonmetro workers are more likely to have blue collar jobs and less likely to have white collar jobs than urban workers. It is precisely these blue collar jobs that are being lost in the American economy. Between 1979 and 1985, white-collar manufacturing employment rose 10 percent and blue-collar manufacturing declined 15 percent, resulting in an overall job loss in manufacturing of 6 percent.

In addition to the adjustment problems already discussed, the rural economy is sharing

fundamental industrial restructuring with the rest of America. Service industries now employ many more rural workers than goods-producing industries, and most of the job growth in rural areas since the late 1960s has been in the service sector. The trend appears to have accelerated since 1969. Of all new nonfarm wage and salary jobs created in rural areas, 83 percent have been in the service sector. The Bureau of Labor Statistics has projected that 90 percent of the 16 million new jobs expected in the United States between 1984 and 1995 will be in the service producing sector. Business, personal, and medical services are expected to account for over half of the new jobs. The business services sector is expected to add the largest number of new jobs because of the increasing trend among firms toward contracting out some services and because of the growth in demand for computer software and other modern business services. Many of the newly created service jobs are at wage levels equal to or above those being lost in the goods-producing sector. This leads to a net improvement in the income prospects for many workers.

For rural areas, industrial restructuring poses some serious challenges.

- Rural manufacturing employment is heavily concentrated in low-wage industries and, within these industries, in blue-collar occupations. Thus, rapid job losses in low-wage manufacturing are likely to have a disproportionately negative effect on nonmetro areas.
- Rural areas do not appear to be attracting a large share of the "high tech winners" among new service jobs.
- Particular industrial activities are concentrated by region. For example, rural manufacturing is heavily concentrated in the South and East.

Farm Financial Stress Extends Beyond the Farm Gate

In the mid-1980s no discussion of rural economic issues would be credible that did not recognize the serious financial stress that has been experienced by a significant component of U.S. agriculture. Many farms continue to be in serious financial difficulty, a condition which has been further aggravated by the recent drought. Despite extensive government

assistance, many of these farmers are unlikely to be able to restructure their businesses successfully, and they will be forced from farming. Given the geographical concentration of these farms, many rural communities in the Northern Great Plains and Western Corn Belt regions are already experiencing farm-related development problems.

Research on farm-dependent counties, which identifies about 700 rural counties that depend on farming for at least 20 percent of total labor and proprietors' income, indicates how difficult the adjustment problems may be for many rural communities (Figure 1). Farm-dependent areas tend to be relatively small in population, sparsely settled, remote from urban opportunities, and with little other local economic activity. Because many of these counties are clustered together, farmers forced to leave farming may have to move (or commute) considerable distances to find alternative employment.

Of course, the current adjustment follows nearly 30 years of continuous farm consolidation and population loss for many of the affected areas. Farmers who leave farming for economic reasons in the 80's have different characteristics than those who left in the past. They tend to be young, relatively well educated, and they operate commercial-scale farms. Past displacements were concentrated among tenant farmers (many of whom were black, poorly educated, and who generally had little or no managerial responsibilities for their farms) and smaller scale commercial operators.

Farm financial stress has far-reaching effects throughout farm-dependent communities. Lower farm prices and reduced land values have resulted in reduced local government revenues. As a consequence, some farming areas face reductions in essential public services. Farm financial stress is associated with the surge in rural and agricultural bank failures. Bank failures can hurt local credit availability throughout the community.

HUMAN RESOURCES ISSUES

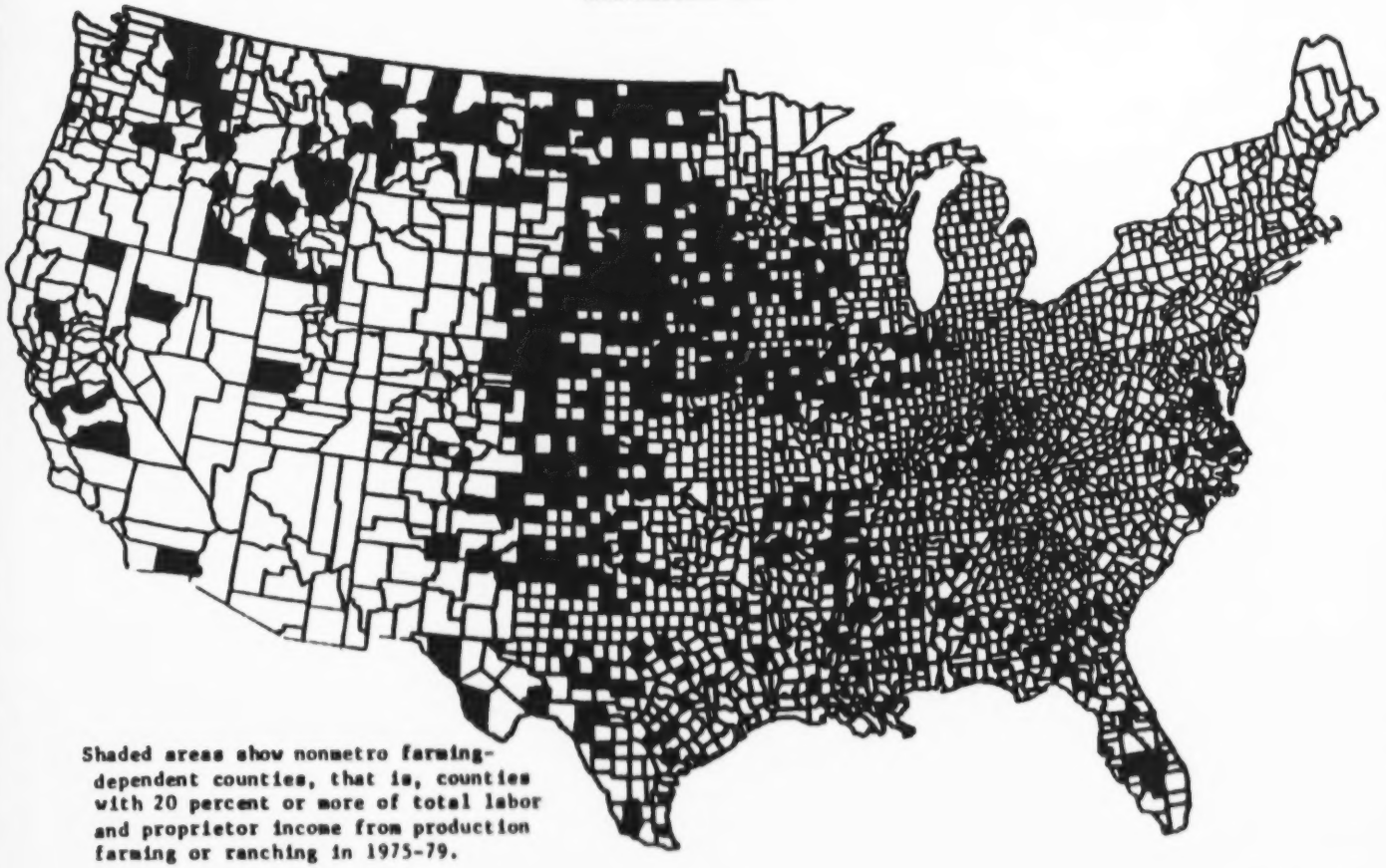
Changing Dimensions of Rural Poverty

A disproportionate share of the nation's poor has resided in rural areas throughout this century. In 1985, the rural poverty rate was 18.3 percent compared with a 12.7 percent

Figure 1

AGRICULTURE-DEPENDENT COUNTIES

NONMETRO U.S.



Shaded areas show nonmetro farming-dependent counties, that is, counties with 20 percent or more of total labor and proprietor income from production farming or ranching in 1975-79.

urban rate (Figure 2). Even when in-kind transfers are included with other income, 13.2 percent of rural people failed to have enough income to meet minimal basic needs -- the official definition of poverty. In urban areas the comparable figure was 9.3 percent. While poverty rates declined during the mid-1970s, both metro and nonmetro rates have risen since the 1979-82 recession and were substantially higher in 1985 than a decade before.

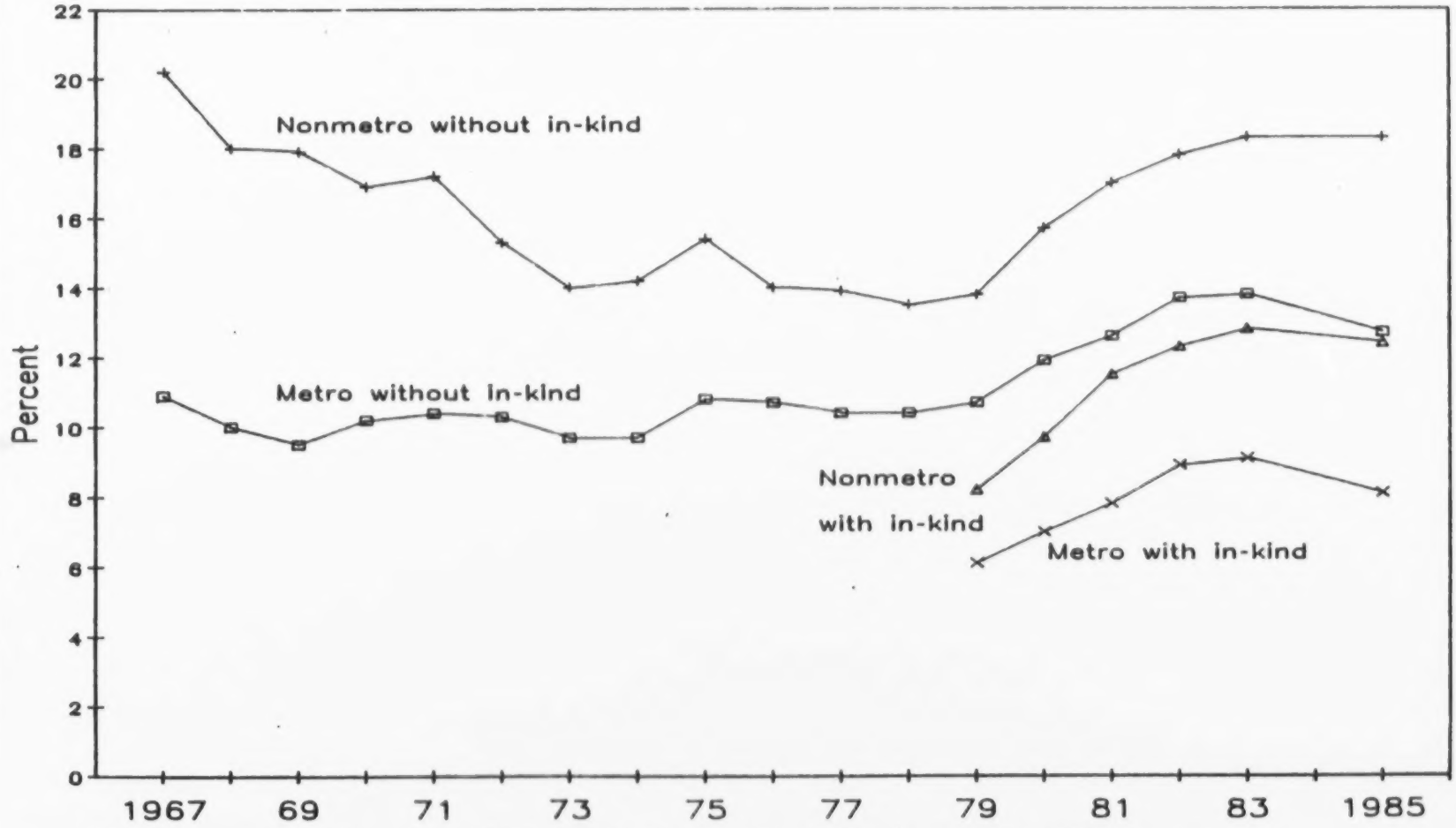
Not only is poverty more prevalent in nonmetro areas, but the characteristics of the rural poor also differ from those of poor persons in urban areas. The rural poor are more likely to be elderly, white, and to live in the South than is true of the urban poor. Labor force attachment is much higher in poor families. Over two-thirds of the rural poor families had at least one worker in 1985, and over one-fourth had at least two workers. In urban areas only 58 percent of poor families had even one worker.

The composition of poverty has changed during the last decade. Since 1973, the poverty rate among older persons has declined from 16 to 14 percent, while the rate for youths increased from 14 to 22 percent. In rural areas, poverty among older persons fell from 23 percent to 18 percent, and the rate for youths rose from 17 to 24 percent.

The diminished economic position of children is related to changes in household and family structure, and especially the increase in families maintained by women with no spouse present. The greatest share of the nation's poor (45 percent) live in married couple families, but over a third live in female-headed single-parent units. The poverty rate among these households is substantially higher than for other family types. This is true in both urban and nonmetro areas, but more pronounced in rural areas where the poverty rate is 43 percent for female-maintained families compared with 13 percent for other family households. Furthermore, 58 percent of rural children living in female-headed families are poor compared with 18 percent of children living in other family types. The child poverty rate has increased for all residence and family types since 1973.

Figure 2

Poverty rates, 1967-85
(with and without in-kind benefits)



Metro-nonmetro based on the 1980 Census for 1985, on the 1970 Census for 1969 and 1971-83, and on the 1960 Census for earlier years. No 1984 data.

Source: U.S. Census Bureau.

Reduced Nonmetro Population Growth and Migration

The relative rates of urban and rural population growth and net migration reversed from their traditional pattern of increasing urbanization to favor rural areas during the 1970s. The "population growth turnaround" was one of the most surprising and significant demographic events of the decade. The pervasiveness of the turnaround can be judged by the fact that the rate of rural population growth increased in all four census regions, and the rural rate exceeded that of urban areas in all regions but the South. Moreover, rural growth increased in areas separated from direct metropolitan contact as well as in counties adjacent to metro areas. And smaller areas grew more rapidly than larger areas, indicating decentralization among rural areas themselves. An increasingly diversified and revitalized nonmetro economy, community modernization, and deeply held preferences for rural living all figured in the migration reversal.

Nonmetropolitan growth began to slow by the end of the 1970s. Post-1980 county population estimates indicate that nonmetro areas are now growing at a lower rate than metro areas. Almost half of all rural counties (1,160) lost population during 1983-85, compared with 460 that lost population in the 1970s. During the 1960s, 1,300 lost population.

The return of slower rural growth poses important questions about future rural economic progress and community viability. A coherent empirical explanation of the diminished growth, one that investigates the effects of both economic and noneconomic factors, has yet to be developed. Reduced growth is surely associated with the economic problems discussed above -- delayed recovery from the 1979-82 recession, financial stress in agriculture and its linked industries, the slow growth or decline of rural manufacturing and natural resource-based industries, and possibly a diminished appeal of rural areas as residential locations. A better understanding of the relative importance of these and other factors would contribute to more informed public policy.

An Older Population

The median age of the U.S. population was 32 years in 1987, a decade older than in 1880. This increase was brought about by a diminished proportion of children and an increasing proportion of elderly persons. Youths and infants accounted for 44 percent of the nation's population in 1880, and elderly persons only accounted for about 3 percent. By 1987, the infant and youth population had declined to less than 30 percent, and over 1 in 10 Americans is age 65 and older.

Rural areas have traditionally had a higher proportion of children, relatively fewer younger adults and middle-aged persons, and a larger proportion of the elderly. These residential differences have been accounted for by a higher level of fertility in rural areas, outmigration of young adults, and both inmigration of older persons and aging-in-place. These residential differences still persist, although both urban and rural areas have been similarly affected by major demographic events of the last quarter century. The decline in the population proportion under 15 years of age is pronounced in both urban and rural areas and is associated with the current prolonged period of low fertility.

Nonetheless, the rural population in 1980 still had a larger proportion of infants and children than the metro population. In contrast, because of aging-in-place and net inmigration of elderly persons from urban counties, the rural population grew somewhat more rapidly in urban areas because the baby boom was more dramatic there and because urban areas are still gaining young labor force age migrants from the rural population.

Projections prepared by the Census Bureau indicate that the nation's population will age substantially, and there is every reason to expect this to take place in both urban and rural areas. In 2030, the proportion under age 65 will have virtually stopped growing while the number of persons 65 and older will increase sharply beginning in 2010. The aging of the baby boom generation will push the median age to about 41 years in 2030 (compared with 32 in 1987). In that year, 21 percent of the population will be age 65 and above and 3 percent will be 85 or older. These changes will have broad implications for the need of and

demand for goods, services, and economic opportunities, and they will affect patterns of consumption, lifestyle, and social and political behavior.

Educational Attainment

A high-quality work force is a critical asset. New entries to the work force must be properly prepared, current workers must maintain their skills and employability, and displaced workers must be provided with skills to facilitate their transition to new jobs. Educational attainment, as measured by years of school completed, has increased substantially in both urban and rural areas during recent years. The urban median increased from 11.1 to 12.6 years of schooling between 1960 and 1980, and the rural median increased from 9.3 to 12.3 years of schooling.

However, the seeming convergence in these medians masks differences in attainment between the residence categories. Continuing and even growing residential differences in formal educational attainment are apparent when one focuses on completion of high school and college rather than on median years completed. The proportion of the population age 25 and over that completed high school has risen substantially since 1960 in both urban and rural areas, but a 10 percentage point gap in this level of educational attainment persists. The percentage of the population age 25 and over that completed college also increased in both urban and rural areas since 1960, but the rural-urban gap in college completion has actually increased. The proportion of the adult rural population that has completed college in 1980 is 1 in 10 persons -- about the same as the urban percentage a decade before. The persistence of the difference is partly attributable to nonmetro net outmigration of young adults with college degrees.

NEW FEDERALISM

During the 1960s and 1970s, state and federal involvement in the affairs of local government grew. One measure of that growing involvement was the declining share of locally raised revenues as a share of total local spending. By 1977, intergovernmental transfers represented 43 percent of revenues of rural localities compared with 34 percent in 1962.

Many communities, while welcoming the inflow of federal funds, chafed at the regulations that often accompanied grant-in-aid money and decried the distortion of local priorities that resulted. The concerns of local government began to be recognized with the adoption of federal revenue sharing and other block grant programs that significantly lessened federal control of the use of funds. Simultaneously, there was a federal move toward deregulation which aimed at letting the marketplace decide on resource allocation, prices, and services in transportation, finance, and communication.

New federalism policies began an era of reduction or withdrawal of federal funding for many grant-in-aid programs, block grant programs, and even general revenue sharing. In part, this is a philosophical retrenchment by the federal government in the scope of its activities, but it is also a result of a perceived need to reduce federal deficits while maintaining both a strong defense and most of the major individual entitlement programs that provide security for our citizens. This is a challenging environment for state and local governments which, in the face of taxpayer resistance, may not be able to replace federal funds with locally raised revenue. It is uncertain what effect this situation will have on local services, on the distribution of current costs and benefits among users and the broader community, or intergenerational transfers of wealth and income.

The range of federal actions affecting rural areas and the policy latitude of state and local governments have changed substantially. No longer is it appropriate to focus principally on levels and constraints of intergovernmental assistance such as grants-in-aid or revenue sharing. The increased integration of the rural and urban economies and the importance of international trade have increased the stake of rural areas in macroeconomic and trade policies. For example, the 1979 change in Federal Reserve policy coupled with the financial deregulation of the early 1980s produced strong inflation and increased the trade value of the dollar as well as real interest rates. All of these changes contributed to the financial stress in agriculture.

The stake of rural areas in stable and balanced macro-level policies may be even more

important outside of agriculture than from within the farm economy. Many more of our rural citizens depend for their livelihood on employment in manufacturing and services than on employment in agriculture. In fact, considerable progress in relieving poverty among rural people, especially in the South, has been the result of rural industrialization that provided better incomes than those in agriculture and created opportunities for paid employment for large numbers of rural women. It now appears that many jobs in low-wage rural manufacturing are vulnerable to structural change and foreign competition. Compared with the federal government, states and localities are severely limited in the policy responses they can make to deal with industrial restructuring and trade. And what they often do is neither cost beneficial to them nor in the best interests of the national economy.

GENERAL DIRECTIONS FOR RURAL ECONOMIC POLICY

Rural America is extremely diverse, and broad generalizations mask many important differences among individual areas. In many ways the variation among rural areas is often as great as the differences between them and urban areas. Because local rural economies do have wide differences, programs tailored to particular types of rural economies may be more effective than more generalized programs.

The diversity of rural conditions and economic structures, and the restructuring of rural economies that is now occurring requires that rural economic policy in the 1980s distinguish between industrial and spatial concerns. Traditional "industrial policies" for rural America have focused on agriculture. Such an industry-specific focus is clearly out of line with rural economic realities of the 1980s. Even farm financial problems are now difficult to address with traditional farm policy instruments alone. The health of the farm sector depends importantly on the nation's monetary and fiscal policy. And since agriculture is only a component (albeit an important one in many instances) of the local rural economy and labor market, an exclusive policy focus on agriculture provides little direct assistance to most rural workers and communities.

Even as policymakers recognize the rural stake in national policy, the concentration of adjustment problems in particular geographic areas suggests the need for federal, state, local, and regional development strategies. It is important to remember that many rural problems are regionwide and not just community-specific. Agriculture, as a major source of household income, is concentrated in the Northern Great Plains and Western Corn Belt; rural manufacturing is disproportionately located in the Midwest and Southeast. Mining and other extractive activities are conducted west of the Mississippi River and in Appalachia. All of these industries have experienced either very slow growth or significant job losses in the 1980s. "Beggar thy neighbor" programs of smokestack (or silicon chip) chasing will not lead to net job growth in a region or an effective replacement of lost jobs. Regional or multi-community cooperative efforts would appear to have a better chance of success in responding to industry-wide declines. Cooperation among different levels of government and with private industry is also essential. The overall goal might be for regions to diversify their economic activities and to increase their participation in the more service-oriented sectors of the economy, thereby decreasing their vulnerability to shifts in demand.

Some local economies may be unable to adapt to the transformation from goods production, mining, or agriculture to greater dependence on services. These may decline permanently. Their functions in the rural economy of the future may become largely residential. Access to urban or other rural employment centers may be their only key to economic prosperity.

Two major dimensions of rural economic policy -- human resource development and job generation (for new and displaced workers) -- must be closely coordinated. Evidence suggests that the skills possessed by many displaced industrial workers, miners, and farmers are likely to be inappropriate for the new, largely service-based and information-dependent industries that will dominate the rural economy of the future. A mismatch between skills and opportunities will affect a large portion of the rural labor force. Development strategies need to consider the skills workers possess or are gaining and the job requirements of existing and developing industries. It makes little sense to train people

for jobs that do not exist in the local or regional economy, unless the goal is to enhance employability elsewhere and encourage commuting or residential mobility. On the other hand, creating new jobs in an area where indigenous workers do not possess the required skills to fill them does not directly benefit local workers unless training programs are envisioned. Without such efforts, the likely result is for the new jobs to be filled by workers from outside the local community. This is not necessarily bad since the purchasing power in trade and services of new workers may indirectly create employment opportunities for longer-term residents. But the first round of mostly higher paying jobs will probably go to the newcomers.

Human resource development activities must be sensitive to the different needs of a new generation entering the work force for the first time, the needs of current workers who desire to maintain employability and a modest standard of living, and the needs of dislocated workers making a transition to new jobs.

The diversity of rural economic conditions indicates diverse paths to economic viability. Some areas will consolidate their economic development efforts around current activities; others will seek to transform and diversify their economies from goods-producing to a broader representation of services; others will specialize in residential and consumer service activities. Some areas will be successful in maintaining or expanding their levels of economic activity. Others will experience decline. Recognizing that rural areas are increasingly interrelated with each other and with the nation as a whole, go-it-alone, community-specific economic development efforts appear to be increasingly inappropriate in tomorrow's rural America.

To be relevant to current concerns, public policy must recognize that rural America has different problems and opportunities in the 1980s than in previous decades. This changing economic context is not the only factor affecting the policy agenda, but it must be considered a major one.